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Centurion Equities Corporation

Formerly Autolec Inc.



1975 Annual Report



Centurion Equities Corporation

21 St. Clair Avenue East
Suite 1000
Toronto, Ontario M4T 1M1
416/967-5909

Board of Directors

Nathan Goodman
Irving B. Goodman
Tully Grief
David Plener
H. L. Mendelson, Q.C.
Morley Sirlin

Officers:

Nathan Goodman
Chairman of the Board
Irving B. Goodman
President
Philip R. Grief, C.A.
Secretary-Treasurer
David Plener
Vice President

Auditors:

Soberman, Isenbaum, Colomby & Nisker
Toronto, Ontario

Legal Counsel:

Harry L. Mendelson, Q.C.
Toronto, Ontario

Banker:

Canadian Imperial Bank of Commerce

Transfer Agent and Registrar:

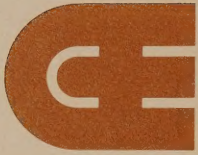
United Trust Company
Toronto, Ontario

Head Office:

21 St. Clair Ave., E.,
Toronto, Ontario

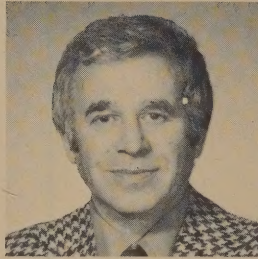
Stock Exchange Listing

Toronto Stock Exchange



Centurion Equities Corporation

21 St. Clair Avenue East
Suite 1000
Toronto, Ontario M4T 1M1
416/967-5909



Nathan Goodman
Chairman of the Board



Irving B. Goodman
President

To Our Shareholders:

Your directors submit the Annual Report of the company together with the consolidated Balance Sheet as at December 31, 1975, the related Consolidated Statements of Income and Retained Earnings and the Consolidated Statement of Changes in Financial Position, with comparative figures for the previous year.

As previously announced, effective June 30, 1975 all the assets of the company were sold to Acklands Limited on a going concern basis. The basic purchase price was \$6,000,000 (payable \$1,875,000 down with 15 quarterly equal instalments that commenced on September 30, 1975, all bearing interest at bank prime rates), plus the assumption of all liabilities by Acklands Limited. The \$6,000,000 represented a value of \$9.57 per share based on the number of shares outstanding. The sale was approved at the annual meeting held in July 1975. The corporate name of the company was subsequently changed from Autolec Inc. to Centurion Equities Corporation. Your directors felt that in face of continuing losses, there was no alternative to the steps taken.

The statement of earnings for the year ended December 31, 1975 was segmented into the period ending June 30, 1975 showing the loss on operations of \$1,849,821 for the six months then ended, as well as extraordinary gains of \$2,579,249 primarily on the sale of the complete operations. The period from July 1, 1975 to December 31, 1975 shows the net interest income of \$174,021. In reality, with the sale of the assets the company has turned from a continual diminishing equity to a profitable earnings position.

With the proven management team that now exists, we are actively seeking acquisitions of successful operating enterprises. With this in mind, the Board of Directors has approved the acquisition of Amalgamated Iron and Metal division and the Interstate Automotive Parts division of Interstate Manufacturing Inc. of Toronto, as well as all the issued shares of Seaway Salvage Inc. in Buffalo, N.Y. This transaction, if approved at the annual and special general meeting to be held in June, will bring to the company operations that have in the past always been profitable.

This fact combined with interest income being earned on the cash resources of the company should make 1976 the first profitable year since 1972.

Additionally, the company through a wholly owned subsidiary has started construction of a 30,000 sq. ft. manufacturing plant in Boisbriand, Quebec. This plant will manufacture aluminum ingots, and should come on stream in the fall of this year. Agreement in principle has been reached with the Government of the Province of Quebec for an incentive grant for this project.

Looking towards the balance of 1976, we feel confident that the turnaround that started in mid-1975 will continue.

Respectfully submitted on behalf of the Board of Directors.

Nathan Goodman,
Chairman of the Board.

Irving B. Goodman,
President.

Consolidated statement of earnings

For the year ended December 31, 1975
(with comparative figures for 1974)

| For the six months ended June 30, 1975 (note 1) | For the six months ended December 31, 1975 | | 1975 | 1974 |
|--|--|--|-------------------|---------------------|
| | | Income | | |
| \$20,081,355 | — | Sales | \$20,081,355 | \$38,947,846 |
| — | \$282,717 | Interest | 282,717 | — |
| <u>20,081,355</u> | <u>282,717</u> | | <u>20,364,072</u> | <u>38,947,846</u> |
| | | Operating costs and expenses | | |
| 21,629,715 | 99,093 | Cost of goods sold and expenses except for the following: | 21,728,808 | 38,986,541 |
| 252,479 | — | Interest on long term debt | 252,479 | 272,088 |
| 48,982 | 9,603 | Depreciation and amortization | 58,585 | 274,901 |
| <u>21,931,176</u> | <u>108,696</u> | | <u>22,039,872</u> | <u>39,533,530</u> |
| | | Earnings (loss) from operations before income taxes and extraordinary items | (1,675,800) | (585,684) |
| (\$ 1,849,821) | \$174,021 | Income taxes — recovered | — | 26,529 |
| | | Loss from operations before extraordinary items | (1,675,800) | (559,155) |
| | | Extraordinary items (note 4) | 2,579,249 | 44,319 |
| | | Net earnings (loss) | <u>\$ 903,449</u> | <u>(\$ 514,836)</u> |
| | | Earnings (loss) per share (note 5) | | |
| | | Loss before extraordinary items | (\$ 2.67) | (\$ 0.89) |
| | | Extraordinary items | 4.11 | 0.07 |
| | | Net earnings (loss) for year | <u>\$ 1.44</u> | <u>(\$ 0.82)</u> |

See accompanying notes to consolidated financial statements.

Consolidated statement of retained earnings

For the year ended December 31, 1975
(with comparative figures for 1974)

| | 1975 | 1974 |
|----------------------------|--------------------|---------------------|
| Balance, beginning of year | \$2,072,860 | \$ 2,587,696 |
| Net earnings (loss) | 903,449 | (514,836) |
| Balance, end of year | <u>\$2,976,309</u> | <u>\$ 2,072,860</u> |

Consolidated balance sheet

As at December 31, 1975

(with comparative figures for 1974)

Assets

| | <u>1975</u> | <u>1974</u> |
|---|---------------------------|----------------------------|
| Current | | |
| Cash | \$ 96,974 | \$ 11,435 |
| Deposit receipts | 1,856,100 | — |
| Current portion of note receivable (note 1) | 1,100,000 | — |
| Accounts and notes receivable | 400,000 | 6,727,491 |
| Inventories | — | 11,106,984 |
| Prepaid expenses and sundry assets | 1,742 | 253,786 |
| | <u>\$3,454,816</u> | <u>\$18,099,696</u> |
| Note receivable (note 1) | 3,850,000 | — |
| Less: current portion | <u>1,100,000</u> | <u>—</u> |
| | <u>2,750,000</u> | <u>—</u> |
| Fixed assets (note 3) | 23,146 | 6,401,360 |
| Goodwill | — | 194,751 |
| | <u><u>\$6,227,962</u></u> | <u><u>\$24,695,807</u></u> |

See accompanying notes to consolidated financial statements.

Auditors' Report

To the Shareholders of
Centurion Equities Corporation
(formerly Autolec Inc.)

We have examined the consolidated balance sheet of Centurion Equities Corporation, and subsidiary companies as at December 31, 1975 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 29, 1976
(except for note 9 which is as of May 20, 1976)

Soberman, Isenbaum, Colomby & Nisker
Chartered Accountants

Consolidated balance sheet

As at December 31, 1975

(with comparative figures for 1974)

Liabilities

| | <u>1975</u> | <u>1974</u> |
|--------------------------------------|----------------|----------------------|
| Current | | |
| Bank indebtedness | \$ — | \$ 6,382,335 |
| Accounts payable and accrued charges | 181,748 | 7,795,073 |
| Income taxes payable | 62,103 | 123,872 |
| Current portion of long term debt | — | 337,435 |
| | <u>243,851</u> | <u>14,638,715</u> |
| Long term debt | — | <u>4,976,430</u> |

Shareholders' equity

Capital stock

Authorized — 2,000,000 shares without par value

Issued — 626,607 shares

| | |
|-----------|-----------|
| 3,007,802 | 3,007,802 |
|-----------|-----------|

Retained earnings

| | |
|------------------|------------------|
| <u>2,976,309</u> | <u>2,072,860</u> |
|------------------|------------------|

| | |
|-----------|-----------|
| 5,984,111 | 5,080,662 |
|-----------|-----------|

| | |
|--------------------|---------------------|
| <u>\$6,227,962</u> | <u>\$24,695,807</u> |
|--------------------|---------------------|

Approved on behalf of the board

Nathan Goodman, *Director*

Irving B. Goodman, *Director*

Consolidated statement of changes in financial position

For the year ended December 31, 1975

(with comparative figures for 1974)

| For the six months ended June 30, 1975 | For the six months ended December 31, 1975 | | 1975 | 1974 |
|--|--|---|--------------|--------------|
| | | Source of funds | | |
| \$ 1,063,098 | — | Sales of properties | \$ 1,063,098 | \$ 325,673 |
| 525,000 | — | Mortgage financing | 525,000 | 1,740,000 |
| — | — | Bank term loan | — | 1,600,000 |
| — | \$4,156,847 | Sale of business, less net current assets sold of \$1,781,050 (note 1) | \$ 4,156,847 | — |
| 1,588,098 | 4,156,847 | | 5,744,945 | 3,665,673 |
| | | Application of funds | | |
| 1,849,821 | (\$ 174,021) | Loss (earnings) before extraordinary items | 1,675,800 | 559,155 |
| 48,982 | 9,603 | Less items not requiring funds | | |
| — | — | Depreciation and amortization | 58,585 | 274,901 |
| 1,800,839 | (183,624) | Deferred income tax recovery | — | (26,529) |
| 1,353,944 | 32,749 | | 1,617,215 | 310,783 |
| 241,053 | — | Additions to fixed assets | 1,386,693 | 3,057,906 |
| — | — | Reduction of mortgage principal | 241,053 | 181,103 |
| — | — | Reduction of bank term loans | — | 354,500 |
| — | — | Expenses of relocating Ottawa distribution Centre | — | 108,965 |
| — | 2,750,000 | Note receivable — long term portion (note 1) | 2,750,000 | — |
| — | — | Net changes in other assets and liabilities | — | 58,006 |
| 3,395,836 | 2,599,125 | | 5,994,961 | 4,071,263 |
| (1,807,738) | 1,557,722 | Increase (decrease) in working capital | (250,016) | (405,590) |
| 3,460,981 | 1,653,243 | Working capital, beginning of year | 3,460,981 | 3,866,571 |
| \$ 1,653,243 | \$3,210,965 | Working capital, end of year | \$ 3,210,965 | \$ 3,460,981 |

See accompanying notes to consolidated financial statements.

Notes to consolidated financial statements

For the year ended December 31, 1975

1. Sale of business

The Company entered into an agreement with Acklands Limited, effective June 30, 1975, whereby the business of the Company (all the assets relating to the business, net of all liabilities relating to the business) was sold as a going concern for a consideration of \$6,000,000.

The terms of the agreement were, a cash down payment of \$1,875,000, with the balance payable in fifteen equal quarterly instalments commencing September 30, 1975, together with interest on the unpaid balance, calculated from July 1, 1975 at the bank prime lending rate.

2. Accounting policies

The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements:

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned.

(b) Depreciation

Depreciation has been provided in the accounts on a basis that will amortize the cost of the fixed assets over their estimated useful lives. The depreciation rates are substantially as follows:

| | |
|------------------|-----|
| Motor vehicles — | 30% |
| Equipment — | 20% |

(c) Income taxes

At December 31, 1975 there was approximately \$1,200,000 in accumulated losses for income tax purposes which may be utilized to offset taxable income in future years.

3. Fixed assets

Fixed assets are classified as follows:

| | 1975 | | | 1974 |
|------------------------|-----------------|--------------------------|-----------------|--------------------|
| | Cost | Accumulated Depreciation | Net | Net |
| Land | \$ — | \$ — | \$ — | \$1,344,627 |
| Buildings | — | — | — | 4,307,424 |
| Equipment | 32,749 | 9,603 | 23,146 | 683,536 |
| Leasehold improvements | — | — | — | 65,773 |
| | <u>\$32,749</u> | <u>\$9,603</u> | <u>\$23,146</u> | <u>\$6,401,360</u> |

4. Extraordinary items

| | 1975 | 1974 |
|--|--------------------|------------------|
| Gain on sale of business, including write-off of applicable goodwill (net of income tax of \$62,103) | \$2,064,622 | \$ — |
| Gain on sale of property | 508,938 | 153,284 |
| Recovery of income taxes in excess of provision | 5,689 | — |
| Expenses of relocating Ottawa distribution centre | — | (108,965) |
| | <u>\$2,579,249</u> | <u>\$ 44,319</u> |

5. Earnings (loss) per share

Earnings (loss) per share has been calculated based upon the number of shares outstanding at the end of the year.

6. Remuneration of directors and senior officers

Remuneration of directors and senior officers including remuneration of the five highest paid employees as required under The Business Corporation Act amounted to:

| | 1975 | 1974 |
|-----------------------|------------------|------------------|
| Directors | \$ 91,000 | \$ 57,531 |
| Other senior officers | <u>36,833</u> | <u>123,895</u> |
| | <u>\$127,833</u> | <u>\$181,426</u> |

7. Stock options

At September 29, 1975, the Company has reserved 60,000 authorized but unissued common shares for its Stock Option Plan which provides for the granting to officers and key employees, options to purchase common shares of the Company at a price per share of not less than 90% of the market price at the day prior to granting. All previous plans have been cancelled.

8. Commitments and contingent liability

The Company has a contractual liability to indemnify the purchaser of its business (note 1) against deficiencies which may occur on the realization of certain of the purchased assets as well as against undisclosed liabilities. These deficiencies, if they arise, can be offset by realizations in excess of the purchase price of certain assets. The management of the Company is of the opinion that total net deficiencies will not be a material factor.

The Company in 1976 is committed to construct and equip a manufacturing plant for the production of aluminum ingots. Capital expenditures will approximate \$1,200,000. Application has been made to the Province of Quebec for an incentive grant to partially fund this project.

9. Subsequent event

On May 20, 1976, the Company entered into an agreement to acquire, effective January 1, 1976, the net operating assets of Amalgamated Iron and Metal division and the Interstate Automotive Parts division of Interstate Manufacturing Inc., and all the issued and outstanding shares of Seaway Salvage Inc., (collectively called "Interstate division"), for a total consideration of \$2,600,000. The terms of the agreement call for \$1,215,153 payable on closing and the balance payable in 20 equal quarterly instalments, with interest on the unpaid balance at 10% per annum. The agreement provides that if the cumulative pre-tax earnings for the first five years of the "Interstate division" does not aggregate \$2,500,000, the purchase price will be reduced by 86.7% of such difference. Furthermore, if any quarterly earnings do not exceed \$62,500 the next succeeding instalment payable will be deferred until five years after the closing date. The vendors will provide sufficient collateral security to provide for any deficiencies that may occur on the purchase price.

